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New Zealand

Agricultural Situation

Agribusiness Report for March 2001

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**Report Highlights: Livestock Farmers Get Bumper Prices
Dairy Merger Expected Before Cabinet Soon
Apple Production in 2001 to Fall
Forestry Investment Needed**

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

LIVESTOCK

Farmers get Bumper Prices

Recently released data show that New Zealand farmers are getting the highest prices for lambs in nearly 30 years, and beef farmers earnings are their greatest since 1992. Prices for goat meat and venison are also strong. Farmers are getting the highest prime lamb prices in decades, with predictions that returns could average NZ\$60/head this season, \$10/head higher than last year. Meat & Wool Economic Service officials said prices were about \$8/head higher than they had predicted in December--the result of a low but steady N.Z.\$ and continued strong demand for lamb. The outbreak of foot and mouth disease in Britain had lifted demand and prices.

Lamb production through the first half of the season was running around 5 percent ahead of last season, while bull beef production was around 25 percent higher. Industry official report that the high prices were due mainly to the low New Zealand dollar favoring exporters and meat processors paying good prices for scarce livestock. The expansion of the national dairy herd means that cows normally culled are being held onto, creating more demand for other beef breeds.

Increase in Meat Exports to the EU Unlikely

Calls for New Zealand to push for an increase in sheepmeat and beef quotas into the European market in light of the BSE and FMD crises are unlikely according to Meat NZ officials. The reasoning is that New Zealand has a finite amount of product available to export to markets around the world, and if more is put into one market it has to come out of another. However, it was recognized that the crisis provided an opportunity for exporters to access other markets outside the traditional EU markets and find improved prices.

US took more beef

N.Z. exporters sold 221,347 tons of beef into the US in the meat year to 30 September 2000, 15% up on the 192,370 tons of the previous year. The increase came partly at the expense of sales to Canada, which were halved to 14,000 tons. In total, the North American market took 77% of New Zealand's beef shipments, up 3%. The performance for beef last year was the strongest for exports since 1992/93 in both volume and value. Total beef exports as well as domestic sales earned N.Z.\$1.75 billion (about U.S.\$750 million) last season, up 38% from the previous year.

UK Lamb Promotion Postponed

Meat N.Z. has postponed a large portion of its 2001 UK advertising campaign promoting natural, nutritious and safe N.Z. lamb out of consideration for British farmers faced with spreading foot and mouth disease. Meat N.Z. officials said it was felt that the imagery and text could be construed as insensitive at a time when British producers could not even move stock off their farms.

Meat Exporter Sources Overseas Product

Affco, one of New Zealand's top meat exporting companies, reports that their overseas customers want to deal with fewer suppliers all-year-round and hence the company was sourcing product from other countries, including Australia and Argentina. However, recently Affco said it was considering temporarily closing its operation in Argentina because it feared it could be tarnished by the foot-and-mouth disease outbreak. Other international marketing initiatives recently undertaken by Affco include

exporting beef to Russia from a N.Z.\$20 million (US\$8.4 million) Chinese joint venture processing plant it opened a year ago.

Venison Prices at Record Levels

Venison prices have hit record levels because of greater demand from European consumers concerned about food safety. The Game Industry Board reports that current prices to farmers are up 26% on a year ago and 47% higher than the same time in 1999. Unprecedented demand in Europe had created a very positive outlook for N.Z. venison exports.

Winter Feed Worries for Many Farmers

Nearly two thirds of New Zealand is now entering or is deep drought conditions. With no substantial rainfall in sight and winter approaching, official and private consultants are concerned that there will not be enough feed for stock. The drought basically started below a line from South Taranaki to the Wairarapa and all of the South Island except the West Coast. Dry conditions were rapidly developing in most of Manawatu, Rangitekei, northern Wairarapa, Canterbury, Otago and Southland. Feed and fertilizer prices in the South Island were rising fast with the increased demand. Canterbury, the main grain and seed producing area and an important sheep and beef area, is officially back in drought, 2 years after the region's worst-ever dry spell. NIWA scientists said parts of the region were in soil moisture deficit of more than 130mm. A 100mm deficit is considered to be a drought. The situation was now as serious as it was in 1998 with 25 local streams and rivers on irrigation restrictions.

PORK

Pork Exports Begin

New Zealand pork producers report that increasing quantities of imported pork (mostly from Canada), which reached 31% of domestic consumption in 1999/2000, continue to pose a threat to the N.Z. Industry. However, the N.Z. industry is responding by taking advantage of export opportunities itself. During the year, the board successfully established the Pork Export Network with 5 companies in collaboration with the government-supported Trade N.Z. This has stimulated enthusiasm for exports and sales have already been made to Australia and Singapore.

Better Prospects for Pork Producers

Returns to N.Z. pork producers improved significantly during 1999/2000, according to the Pork Industry Board's Annual Report. While the number of producers leaving the industry resulted in a much lower pig kill, improved returns had lifted the confidence of those remaining, enabling them to retire debt and catch up on deferred maintenance. The Board said it was becoming increasingly concerned about the closure of pig farming operations as a result of their failure to secure resource consents under the Resource Management Act. In two instances, pork producers had to close their operations with no compensation.

DAIRY

Merger Expected To Go Before Cabinet Next Week

N.Z. dairying's quest for legislation to create a single dairy company is expected to go before cabinet next week. A Government spokesperson confirmed that the dairy merger proposal and recommendations by Government advisers would be considered by cabinet or a cabinet committee

next week. The big question is whether the government advisers will support the industry's request to waive commerce commission scrutiny. Questions of control of quota rights in foreign markets and exit value for farmers are also important topics.

Dairy Board's Brazil Investment will not Proceed

The Dairy Board has confirmed its planned purchase of Brazilian milk company Grupo Virgo is not to proceed. A spokesperson for the Dairy Board said they were unable to come to an agreement over the total amount payable for the company. Industry officials said that while the Vigour purchase would not now proceed, the board would continue to seek opportunities to strengthen its position in the Brazilian market through similar investments.

HORTICULTURE

Apple Production in 2001 Expected to Decline

Industry sources report that very dry conditions in orchards over the last several months are expected to result in a reduction in the 2001 apple harvest. Industry sources estimate that the export crop this year may drop to around 14 million cartons, compared to about 20 million last season. Production of Royal Galas and Braeburns are expected to be down significantly. Harvests of Fuji and Pacific Rose are also expected to fall. The harvest is about half done, and runs roughly from mid-February to mid-May. Of the export crop, ENZA may only ship about 11.5 million boxes, with the rest going to independent exporters.

Few Growers Want to Return to a Single Desk

Few growers want a return to an exclusive single-desk seller, judging by submissions on a discussion paper reviewing options for the future direction of apple exports. The discussion paper proposed four options - the status quo, returning to a single desk seller, total deregulation, or a horticulture export model. The majority of submissions supported contestable exporting, either through deregulation or the horticulture export model. The government has said that it would only make decisions when it was confident the industry would be behind those decisions, that they were in the national interest, and that minority interests were addressed.

Horticultural Acreage Rises Sharply Over the Decade

A statistical horticulture survey has been conducted by MAF after a five year absence. Provisional data from the revived survey shows the area of land used for horticulture increased 46% from 87,800ha at June 30 1990, to 128,100ha at June 30, last year. But export dollars have been coming in faster than horticulturists have been expanding their orchards, market gardens and vineyards. Horticulture exports increased by more than 50% during the decade to almost N.Z.\$1.7 billion (US\$714 million) in the year to June 2000. The wine industry showed the biggest growth in absolute terms of land acreage but the most rapid land use percent growth rate in recent years has been from avocados. Provisional estimates show 12,500 ha planted in wine grapes at June 30, 2000, more than double the 5,400 ha in 1990.

Value of Wine Exports Up

The value of N.Z. wine exports is nearing NZ\$200 million a year, the N.Z. wine institute reports. In the year to 30 December, wine exports totaled 20.2 million liters, valued at N.Z.\$195.2 million (U.S.\$84 million), an increase of 9% in volume and 30% in value over 1999. Forward projections were that

exports would double by 2005, reaching 40 million liters and N.Z.\$375 million (U.S.\$160 million) by 2003.

FORESTRY

Forest Investment Needed to Meet Growing Wood Availability

New Zealand's forestry industry which earned N.Z.\$3.57 billion (US\$1.5 billion) in exports last year (12.8% of N.Z.'s total exports for 2000) is poised for another expansion. By 2003, the industry is estimated to have an additional 9.6 million cubic meters of logs available to export or process. Government officials estimate this increased volume of lumber could support 11 new sawmill but are concerned about the current low levels of investment in wood processing. For the period to 2005, new wood processing investments, so far, total \$NZ531 million (US\$223 million) compared with N.Z.\$1.27 billion (US\$533 million) for the 1994 to 1999 period. The government is developing a wood processing strategy which will cover such issues as transport infrastructure, biosecurity, research, trade access and investment promotion.

SEAFOOD

Export Returns from Mussels Up

New Zealand's total export returns from greenlipped mussels jumped 45% to NZ\$170 million (US\$71 million) last year, reflecting both increased production and the low kiwi dollar. The outlook for other sectors of the seafood industry is strong with the European-based Marine Stewardship Council declaring New Zealand's Hoki fishery to be sustainably managed. It is the first major whitefish fishery in the world to win such certification. Other fisheries are now seeking certification.

GENERAL

Food Prices Continue to Rise

Food prices rose 0.5% in February, bringing the annual rise to 5.7%, Statistics N.Z. reported. The latest annual increase is the 9th in a row, and the biggest since July 1990, when the increase was 6%. Buoyant export markets lifted prices for meat, dairy products and fish. Fresh fruit and vegetable prices were up 4% in February and 23% in the past year. The most significant contributions to the February increase came from rises in the seasonally adjusted prices of apples and tomatoes.